

Research Matters

News from the Senate Research Center



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Is the Texas Health Care Liability Act DOA?

United States Supreme Court rules Act is preempted by federal law



Summary

The Texas Health Care Liability Act (Act), enacted in 1997, grants individuals the right to sue a health insurance carrier or managed care entity for denying benefits under a plan. On June 21, 2004, a unanimous United States Supreme Court ruled that the Texas law making managed care entities liable for decisions to deny coverage is preempted by the federal Employee Retirement Income Security Act of 1974 (ERISA), which governs employee benefit plans. ERISA seeks to provide a uniform body of laws regarding benefit plans and, to achieve this goal, ERISA preempts state laws regarding such plans. Under ERISA, a person may bring an action for denial of benefits. The court ruled that if a person could have brought a claim under ERISA for denial of benefits, and there is no other independent claim under another federal or state law, then an action under state law regarding the denial of benefits is preempted by ERISA.



Facts

Juan Davila and Ruby Calad (Respondents) were covered by ERISA-regulated employee benefit plans, Aetna Health Inc. and CIGNA Healthcare of Texas, Inc. (Petitioners), respectively. When Aetna refused to pay for specific medication prescribed by Davila's physician, Davila took another prescription medicine, to which he had a severe reaction. Calad underwent surgery, and although her treating physician recommended an extended hospital stay, CIGNA denied coverage for such a stay. Calad experienced postsurgical complications which she alleged would not have occurred had CIGNA approved extended hospitalization. The Respondents brought suit in Texas courts under the Act, asserting that the Petitioners' refusal to cover the requested services violated the duty to exercise ordinary due care and the refusals proximately caused the Respondents' injuries.



Opinion

The Petitioners successfully removed the case to federal court, arguing that the Respondents' claims were preempted by ERISA's remedy provisions. The Respondents appealed to the United States Fifth Circuit Court of Appeals, which consolidated the two cases. The Fifth Circuit held that because the Act did not duplicate the causes of action provided for in ERISA, the Respondents' claims were not preempted by ERISA. Petitioners appealed to the United States Supreme Court.

In the opinion, the Supreme Court explained that ERISA seeks to provide a uniform regulatory regime over employee benefit plans and, to this end, includes expansive preemption provisions. ERISA's legislative scheme includes comprehensive civil enforcement procedures that balance the need for prompt and fair claims settlement against the public interest in encouraging the formation of employee benefit plans. The court asserted that the federal scheme would be undermined if ERISA-plan participants and beneficiaries could obtain remedies under state law that Congress had chosen not to include in ERISA. Further, the court stated, ERISA's carefully integrated civil enforcement provisions provide strong evidence that Congress did not intend to authorize other remedies. Therefore, the court concluded, any state-law cause of action that duplicates, supplements, or supplants the ERISA civil enforcement remedy conflicts with the clear Congressional intent to make the ERISA remedy exclusive and is preempted.

The court then looked specifically at Section 502(a)(1)(B) of ERISA, which authorizes a participant or beneficiary to bring a civil action "to recover benefits due to him under the terms of his plan, to enforce his rights under the terms of the plan, or to clarify his rights to future benefits under the terms of the plan." The provision authorizes a participant or beneficiary who believes that benefits promised under the plan are being denied to bring suit seeking provision of those benefits. The court declared that a suit falls within the scope of Section 502(a)(1)(B) if: the individual could bring suit under this section complaining of a denial of coverage for medical care; the individual is entitled to coverage only because of the terms of an ERISA-regulated employee benefit plan; and there is no state or federal legal duty independent of ERISA or the plan terms. If a claim falls within this section, any state action would then be preempted by ERISA.

Examining the Respondents' claims, the Supreme Court ruled that the Respondents could have brought their claims under Section 502(a)(1)(B) concerning the denials of coverage promised under the terms of ERISA-regulated employee benefit plans. The Respondents contended, however, that the Petitioners' actions violated legal duties arising independently of ERISA because the Petitioners had violated the duty of ordinary care set forth in the Act. Because this duty of ordinary care was independent of any duty imposed by ERISA, the Respondents asserted that a civil action to enforce this duty is not within the scope of ERISA's civil enforcement mechanism. The court rejected this argument, holding that the duties imposed by the Act in the context of these cases do not arise independently of ERISA or the plan terms. The Act, noted the court, clearly states that it creates no obligation on the part of the managed care entity to provide treatment which is not covered by the entity's health care plan. Therefore, a managed care entity could not be subject to liability under the Act if it denied coverage for any treatment not covered by the health care plan. Thus, interpretation of the terms of the benefit plans forms an essential part of the Respondents' claims under the Act, and liability under the Act would exist only because of Petitioners' administration of ERISA-regulated benefit plans. The Petitioners' potential liability under the Act, declared the court, derives entirely from the particular rights and obligations established by the benefit plans. The Respondents' suit seeks only to rectify a wrongful denial of benefits promised under ERISA-regulated plans, and does not attempt to remedy any violation of a legal duty independent of ERISA. The court concluded that the Respondents' stated causes of action fall within Section 502(a)(1)(B), and are therefore preempted by ERISA. The court's full opinion is available online at <http://supct.law.cornell.edu/supct/html/02-1845.ZS.html>.

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